

BEFORE THE
UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposals One Through Five)

Docket No. RM2013-6

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE
TO ORDER NO. 1814 CONCERNING RULEMAKING ON
ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSALS ONE THROUGH FIVE)

September 9, 2013

I. INTRODUCTION

The Public Representative hereby files Comments pursuant to the Commission's Notice of August 20, 2013 in this docket of the Postal Service's petition for rulemaking of analytical principles used in periodic reporting.¹

On August 16, 2013, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission to initiate an informal rulemaking proceeding to consider changes in four analytical methods for use in its periodic reporting.² The Petition labels the proposed analytical method changes filed as Proposals One through Four.

In addition, the Petition requests clarification concerning the status of a proposal that the Postal Service filed in response to a Commission directive in Docket No. ACR2012 regarding distribution of settlement costs within certain Global Plus

¹ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals One Through Five), August 20, 2013, Order No. 1814 (Notice). Reply comments are due no later than September 19, 2013.

² Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals One through Four), August 16, 2013 (Petition).

Negotiated Service Agreement (NSA) products.³ That request for clarification is being treated as a petition pursuant to 39 CFR 3050.11 requesting the Commission to initiate an informal rulemaking proceeding to consider the changes identified in response to the Commission directive in Docket No. ACR2012, Item 3. *Id.* The request is labeled Proposal Five and is being reviewed as part of this docket.

II. COMMENTS

A. Proposal One. New Formula and Location for Alaska Air Adjustment Factor

Proposal One relates to the Alaska Air Adjustment which is an integral part of the Alaska Bypass Service. The Alaska Bypass program was created in 1972 to fill the gap in the frequency of package delivery service to the state's rural areas.⁴ The Alaska Bypass Service, a separate product created in Docket No. MC 2012-13 and formerly part of the parcel post product category, consists of merchandise ordered by rural merchants, shipped by an approved Bypass Shipper to a hub or directly to a bush site and then on to the merchant store by the airline, bypassing the Postal Service altogether. *Id.* at 16.

The Alaska Air Adjustment is used to reduce the cost allocated to the Alaska Bypass Service by a factor of estimated costs that would have been incurred if the merchandise was shipped using a highway network in lieu of actual speedier air service. The estimate of Alaska non-priority surface transportation cost in comparison to actual air costs, determined in Docket No. R2005-1 and currently in use, is approximately 7 percent of air costs. This percentage, or factor, is used to reduce costs for the product

³ *Id.* at 1; see also Docket No. ACR2012, Responses of the United States Postal Service to Commission Requests for Additional Information in FY 2012 Annual Compliance Determination, Item 3, June 26, 2013, as revised July 31, 2013, (Proposal Five).

⁴ U.S. Postal Service Office of Inspector General, Alaska Bypass: Beyond its Original Purpose, November 28, 2011 at 1.

and allocate the residual 93 percent to Postal Service institutional costs to be distributed and recovered by all mail products. *Id* at 9.

The Postal Service proposes a change to the current formula for the calculation of the Alaska Air Adjustment based on new data available through TRACS and SAMS – Alaska. The current factor formulated in Docket No. R2005-1 approximates the highway equivalent cost of Alaska non-preferential air by taking the ratio of highway costs per cubic foot mile to non-preferential air costs per cubic foot mile and multiplying the result times mainline and bush air costs.⁵

The proposed Alaska Air Adjustment factor preserves the same premise as the original factor by using the ratio of the highway-equivalent cost to air costs. The Postal Service maintains that the proposed method is simpler, can be updated with ease annually, and keep intact the ratio of long-distance attributable unit highway costs to unit air costs. Petition at 2.

The implementation of the proposed factor results in the doubling of the current attributable costs allocated to the Alaska Bypass Service. However, it is important to note that the worksheet filed by the Postal Service in response to Chairman's Information Request No. 1 in Docket MC2012-13 calculates a healthy cost coverage well in excess of 100 percent for the Alaska Bypass Service after the removal of 93 percent of its actual costs for distribution to other mail products.⁶ The doubling of attributable costs with the implementation of the proposed Alaska Air Adjustment factor is expected to have no impact on the actual price of the product as the setting of the rates are, in any event, subject to the price cap limitation. Given its projected healthy cost coverage margin, the increase in attributable costs based on the proposed factor would still enable the product to cover its costs. The Public Representative recommends the approval of Proposal One.

⁵ Docket No. R2005-1, USPS-LR-K-36: Calculation of Air Adjustment at 13.

B. Proposal Two. New Set of Distribution Factors for Alaska Non-Preferential, Alaska Preferential, Hawaii, and Air Taxi Cost Pools in Cost Segment 14

Proposal Two would discontinue special studies that determine distribution factors for the allocation of accrued costs for Alaska Non-Preferential, Alaska Preferential, Hawaii and Air Taxi to mail products. The Postal Service proposes to replace the special studies with a single set of factors developed from data obtained from TRACS. The Postal Service states that the primary benefit of this change is the use of current data to align attributable product costs with current product lists. *Id.* at 4.

The Postal Service also states that the proposed method corrects an anomaly in the distribution of Air Taxi attributable costs to products by applying its appropriate cost driver, pounds, and not the unit measure currently in use, cubic feet.

The Public Representative is unable to determine the impact of the implementation of the proposed distribution keys based on the information submitted in the filing. The Table in the Postal Service Petition provides attributable costs in total for Alaska Non Preferential, Alaska Preferential, Hawaii and Air Taxi cost pools. Petition at 7. Comparative FY 2012 costs by class and subclass of mail as listed in the "Product" column of the Table by each cost pool, "Alaska Non Preferential", "Alaska Preferential", "Hawaii" and "Air Taxi", using the current and proposed distribution factors are not provided. Also, the total attributable cost using Proposed FY12 distribution factors is not provided.

Comparative calculations in the following table of percent changes in the distribution factors, from current to proposed, highlight a few issues that the Commission should consider in this docket.

COMPARISON OF PROPOSED FY12 AND CURRENT DISTRIBUTION FACTORS RELATED TO PROPOSAL TWO									
Product	FY12 Cost Coverage	Percent Change	Impact of Proposed FY12	SUM(B+C+ D+E)/4 Average					
				A Proposed FY12	B Current FY12	C Alaska Non Pref FY12	D Alaska Pref FY12	E Hawaii FY12	F Air Taxi FY12
FIRST CLASS MAIL									
Single Piece Letters	168.8%	-5%	-0.00350	0.07436	0.07787	0.00667	0.0556	0.2102	0.03899
Single Piece Cards	124.8%	0%	0.00000	0.00128	0.00128	0	0.00115	0.00339	0.00057
Presort Letters	293.8%	70%	0.10988	0.15801	0.04813	0	0.04471	0.03542	0.11238
Presort Cards	283.4%	77%	0.00421	0.00547	0.00126	0	0.00035	0.00123	0.00346
Single Piece Flats	164.7%	-23%	-0.01040	0.04571	0.05611	0.00304	0.04542	0.14635	0.02961
Presort Flats	110.0%	71%	0.01328	0.01873	0.00546	0	0.00367	0.00647	0.01168
Parcels	98.5%	5%	0.00073	0.01490	0.01417	0.00178	0.03652	0.00519	0.01318
Total First Class		36%	0.11420	0.31846	0.20426	0.01149	0.18742	0.40825	0.20987
STANDARD MAIL									
High Density and Saturation Letters	222.2%	69%	0.00050	0.00072	0.00023	0.00071	0.00012	0.00006	0.00001
High Density and Saturation Flats & Parcels	217.3%	85%	0.00155	0.00182	0.00028	0.00092	0.00016	0.00001	0.00001
Carrier Route	130.8%	-13%	-0.00112	0.00848	0.00960	0.02804	0.00504	0.00502	0.00028
Letters	178.9%	38%	0.01256	0.03334	0.02078	0.01375	0.04522	0.02143	0.00271
Flats	80.9%	1%	0.00024	0.02623	0.02599	0.0121	0.06522	0.02302	0.0036
Parcels	85.5%	-90%	-0.00208	0.00231	0.00439	0.00135	0.01548	0.00024	0.00049
Total Standard Mail		17%	0.01240	0.07290	0.06051	0.05687	0.13124	0.04681	0.0071
PERIODICALS									
In County			0.00000	0.00000	0.00000	0	0	0	0
Outside County	72.2%	7%	0.00278	0.03830	0.03552	0.00934	0.06543	0.0598	0.00752
Total Periodicals		7%	0.00278	0.03830	0.03552	0.00934	0.06543	0.0598	0.00752
PACKAGE SERVICES									
Bound Printed Matter Flats	135.1%	8%	0.00025	0.00317	0.00292	0.00138	0.00798	0.00188	0.00044
Bound Printed Matter Parcels	109.1%	-11%	-0.00065	0.00592	0.00657	0.00488	0.02021	0.00035	0.00083
Media and Library Mail	85.3%	81%	0.01448	0.01782	0.00334	0.00688	0.00238	0.00076	0.00335
Total Package Services		52%	0.01408	0.02691	0.01283	0.01314	0.03057	0.00299	0.00462
USPS Mail		31%	0.00246	0.00801	0.00555	0.01078	0.00037	0.00117	0.00989
Free Mail-Blind Handicapped & Servicemen		78%	0.00102	0.00130	0.00028	0	0	0.00004	0.00108
Total Domestic Market Dominant Mail		32%	0.14768	0.46588	0.31820	0.10162	0.41203	0.51906	0.24008
Total Domestic Competitive Products		-35%	-0.16975	0.48562	0.65537	0.89838	0.58086	0.46044	0.6818
International Mail		47%	0.02282	0.04850	0.02568	0	0.00411	0.0205	0.07812

In the FY 2012 Annual Compliance Determination (ACD), the Commission observed the decline in cost coverage of First Class Parcels upon the transfer of commercial First Class Parcels to the competitive product category. The Commission recommended that the Postal Service “ensure that this product cover(s) its attributable cost through cost reductions and future rate adjustments.” FY 2012 ACD at 81. It appears that the 5 percent increase in the distribution factor proposed would result in a

decrease in cost coverage. Similar issues arise for Media and Library Mail and Outside County Periodicals with cost coverages of 85.3 percent and 72.2 percent and related percent change increases in their distribution factors of 81 percent and 7 percent under the proposed method.

The Postal Service states that the proposed distribution factors for Intra-Hawaii and Air Taxi would be based on data obtained from SAMS-Alaska as the remote areas for both states rely on Air Taxi services due to a lack of accessible highway networks. Petition at 4 and 5. The Postal Service also proposes changing the cost driver for Air Taxi from cubic feet to pounds. This change in the cost driver appears to contradict the rationale given for the use of Air Taxi Service as a means to transport mail when scheduled flights are not available.

The Public Representative notes that there is insufficient information to determine the impact of the implementation of the proposed distribution factors in Proposal Two.

C. Proposal Three. New Set of Distribution Factors for Highway and Plant Load Cost Pools in Cost Segment 14

Proposal Three would replace special studies currently used to determine distribution factors for the allocation of accrued costs for Highway and Plant Load Cost Pools in Cost segment 14 with proxies using Inter-NDC contract transportation. The Postal Service states that the primary benefit of this change is the use of current data which can be updated with greater frequency and aligned with current product lists. Petition at 8.

Similar to Proposal Two, the Public Representative is unable to determine the impact of the implementation of the proposed distribution keys based on the information submitted in the filing. The Table provided in the Postal Service Petition includes total attributable costs for Highway Plant Load FY12 and Rail Plant Load FY12 with no estimation of attributable costs allocated using the proposed distribution factors. Petition at 9-10. The Table does not provide the comparative FY 2012 costs by class

and subclass of mail as listed in the “Product” column of the Table by each cost pool, “Highway Load FY12”, “Rail Plant Load FY12”, “Proposed Highway Load FY12” and “Proposed Rail Plant Load FY12” using the current and proposed distribution factors.

D. Proposal Four. Change in Canada Air Transportation Costing Methodology

The Postal Service states that the purpose of Proposal Four is to revise the costing methodology for Air Transportation of Outbound products to Canada. Detailed analysis of the proposal shows that this costing methodology for Outbound products to Canada will also impact Air Transportation costs for the rest of the world. The Public Representative supports adoption of this change in methodology, but has several suggestions for additional information that should be provided by the Postal Service to ensure the method is applied correctly.

There are two changes in proposal four. The Postal Service proposes to use the General Ledger Account totals for Air and Surface Purchase Transportation as the benchmark for both the Imputed and Booked Reports. Then, the CS14 Purchased International Surface Transportation costs are used to ascertain the cost of International Transportation costs for Outbound Canadian Air Mail that is diverted to Highway Transportation.

The second change is minor, and the calculations described by the Postal Service in the “Mechanics” section of the Proposal from pages 14 to 22 are sound. While the Public Representative prefers linked spreadsheets, the Postal Service should be commended for diligence in providing a roadmap for ascertaining accuracy with the source data. However, in a few instances the source data for hardcoded cells could not be readily ascertained. Specifically, the calculations regarding the Additive International Air Transportation Cost from ICM Costing Module should be linked to the source data or otherwise explained.

The first change is the more significant one. There is a difference that is unexplained by the Postal Service between the General Ledger Account total for

Purchased International Transportation and the Imputed CS14 Air Transportation Cost. As detailed in "Attachment 2.xls," the total Volume Variable Cost for Market Dominant and Competitive Products, in both the Booked and Imputed pages, differs between the ACR method and the Proposed Method.

Concerning the difference, the Public Representative suggests that the Postal Service explain the difference in Booked and Imputed Volume Variable Costs. The aggregate cost data for Market Dominant and Competitive Mail is provided in table D-1 of the FY 2012 ACR. In the aggregate, the costs are public. Out of respect for the Postal Service, and an overabundance of caution, the Public Representative will not reproduce the aggregated costs from "Attachment 2.xls." The Public Representative urges the Postal Service, in its reply comments, to provide the aggregate data publically, and explain why the costs differ.

As discussed by the Postal Service on Page 17 of the Proposal, the difference likely stems from the new benchmark for Air Transportation Costs, found in the tab "Benchmarks" of "Attachment 1.xls." The Public Representative believes it is a reasonable improvement to use the General Ledger Accounts, but further explanation of the historical difference would be useful.

E. Proposal Five. Change in Methodology for Distributing Settlement Costs for Certain Negotiated Service Agreements

In the FY 2012 ACD, the Commission found that two Global Plus products did not comply with section 3633(a)(2). The Commission directed the Postal Service to modify its financial model for Global Plus NSAs to more accurately develop costs. FY 2012 ACD at 169-170. On June 26, 2013, (revised July 31, 2013) the Postal Service submitted USPS-FY12-NP42 in response to the Commission's directive. The Postal Service proposes to adjust the cost distribution methodology of the ICRA to "more properly reflect the methodology used in the CP2013-38 financial model."⁷ The Postal

⁷ Revised Responses of the United States Postal Service to Commission Requests for Additional Information in FY 2012 Annual Compliance Determination, July 31, 2013 at 5.

Service proposes to allocate settlement costs based on revenue shares rather than pound shares.

Changing the allocation to revenue shares from pound shares is an improvement, as revenue is a better reflection of the cost causing characteristics of the product than pound shares. The Postal Service states “without knowing shipment-level details, it is more appropriate to allocate settlement cost based on revenue shares.” The Public Representative supports the implementation of proposal five. However, the allocation of settlement costs can be improved further with the usage of shipment-level details. The Postal Service has not explained why shipment-level details are unavailable. In the future, the Postal Service should further improve cost allocation by keeping the shipment-level details, and use that information for costing purposes.

III. CONCLUSION

The Public Representative respectfully submits the foregoing Comments for the Commission’s consideration.

Respectfully submitted,

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